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# Taxation of Aviation Prior to 1970

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## Summary

Prior to the 1970 creation of the airport and airway trust fund and the aviation taxes that supported it, there were no aviation specific taxes (taxes levied on aviation use or users solely for the support of aviation infrastructure) in the United States. Aviation users were, however, subject to manufacturers' excise taxes such as those on gasoline, oil lubricants, tires, and inner tubes. Excise taxes on the transportation of persons and property were imposed during the early 1940s as war revenue measures. Although efforts were made, beginning almost immediately after the end of World War II, to eliminate some of these taxes, most were retained in some form until passage of the Airport and Airway Development and Revenue Acts of 1970 (P.L. 91-258). This act imposed six taxes and extended one, all of which applied only to aviation, and dedicated all the revenues to the airport and airway trust fund. This report will not be updated.

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During the first 67 years of aviation in the United States, there were no aviation specific excise taxes (i.e., excise taxes exclusively levied on aviation use or users for the support of aviation infrastructure). Aviation users were not, however, exempt from manufacturers' excise taxes, such as those on gasoline, lubricating oil, tires, and inner tubes. The Revenue Act of 1932 (P.L. 72-154), which imposed the first federal gas tax and reimposed taxes on oil lubricants, tires and inner tubes, specifically included aeronautical uses among other transportation uses. These were seen as taxes that would raise revenue in the depression environment of the 1930s. Prior to the 1932 Act, from 1917 to 1930, taxes had been imposed on tires and inner tubes, initially as a war measure, but the taxes were retained as a growing source of revenue during the 1920s. **Figure 1**, sets forth taxes and tax rates that aviation users paid from 1932 to 1969.

World War II needs ushered in a new set of changes on the taxation of transportation that included aeronautical use. A new transportation of persons tax on all common carrier transportation modes was imposed at 5% in 1941 for revenue purposes. It was increased to 10% in 1943 and again to 15% in 1944, at least in part, to discourage civilian travel during wartime. A 3% tax on charges for the transportation of property was also imposed as a war measure in late 1942.<sup>1</sup> Efforts to repeal these two transportation taxes in the late 1940s failed because of resistance from treasury and budget officials who argued that the revenue was needed to balance the budget and retire the nation's war debt. The Korean War also was an element in the delay in reducing what were seen by many at the time as war taxes. Eventually, the tax on transportation of persons was reduced to 10% in 1954 and eliminated in 1962. In its place, a 5% tax on transportation of persons by air was levied. This was the first excise tax levied solely on aviation. Although this was a tax on aviation users, the revenues were not dedicated to aviation purposes. The revenues were deposited in the Treasury's general fund. The 3% tax on transportation of property was continued until 1958 when it was repealed.

<sup>1</sup> During World War I, the Revenue Act of 1917 had imposed a similar tax on transportation of persons, but it was repealed as of January 1, 1922. A tax on the transportation of property had also been imposed as a war tax in 1917, but was also repealed as of January 1, 1922. Neither of these taxes had an effect on aviation, however, because there was no commercial air service during this period.

**Figure I. Taxes on Aviation: Enacted, Modified, or Revoked; 1932-1969**

Effective Date	Gasoline (¢ per gallon)	Lubricating Oil (¢ per gallon)	Tires (¢ per gallon)	Inner Tubes (¢ per pound)	Trans. of Persons/ Ticket Tax (% of price)	Trans. of Property (% of charge)
1932	1.0	4.0	2.25	4.0		
1933	1.5	↓	↓	↓		
1934-1939	1.0	↓	↓	↓		
1940	1.5	↓	2.5	4.5		
1941	↓	4.5	5.0	9.0	5%	
1942-1943	↓	6.0	↓	↓	10%	3%
1944-1950	↓	↓	↓	↓	15%	↓
1951-1953	2.0	↓	↓	↓	15%	
1954-1955	↓	↓	↓	↓	10%	
1956-1969	As of 1956 all gas tax increases over 2¢ became refundable	Aviation use became fully refundable in 1966	Additional 3¢ effective 1956 & 2¢ in 1961 not applied to aviation	10.0 (effective 7/1/1961)	5% (7/1/1962) Tax repealed, replaced with 5% tax on trans. by air	Repealed 1958

**Source:** “Federal Excise Taxes: a History of Federal Excise Taxation, Arguments for and Against Each of the Present Taxes, and Proposals for Extension, Including General Sales Taxes,” by Raymond E. Manning, *Public Affairs Bulletin*, N. 72, (Washington: Legislative Reference Service, 1949). *Federal Excise-tax and Collection Data*, by the U.S. Congress, Joint Committee on Taxation, (Washington, GPO, various years). *Schedule of Present Federal Excise Taxes*, by the Joint Committee on Taxation, (Washington, GPO, various years).

The period from 1956 to 1966 can be seen as a period of transition in transportation taxation generally, and in aviation taxation specifically. The Highway Revenue Act of 1956 (P.L. 84-627) created the highway trust fund (HTF) and raised the gasoline and tire taxes. The gas tax was increased to 3¢ per gallon; however the amount over the existing 2¢ per gallon was made refundable to aviation users. In 1959 an additional 1¢ per gallon increase in the gas tax was also made refundable for aviation use. These gas tax increases were seen as being levied for construction of the interstate highways and aviation supporters argued that it was inappropriate for aviation users to pay gas tax increases to support interstate system highway construction, especially considering that the spending could be seen as subsidizing commercial air carriers’ intercity highway-based competitors. The additional 1956 tax of 3¢/lb on tires as well as the additional 2¢/lb levied in 1962 were not imposed on aviation use. These changes, along with the 1962 elimination of the general transportation of persons and simultaneous imposition of the tax on transportation of persons by air, began setting the precedent for separate taxes and separate rates for aviation. The Airport and Airway Development and Revenue Acts of 1970 levied six taxes and redirected one, all of which applied only to aviation, and dedicated their revenues to the airport and airway trust fund (AATF), which the act also created.<sup>2</sup>

<sup>2</sup> For information on current aviation taxes and issues see CRS Report RL33913, *Aviation Finance: Federal Aviation Administration (FAA) Reauthorization and Related Issues*, by John W. Fischer.

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